

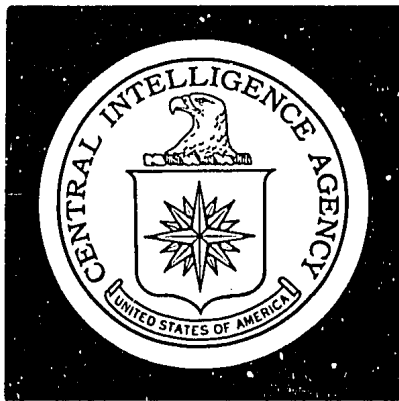
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Somalia: The Socialist Revolution Faces A Stiff Economic Challenge

Secret

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August 1971

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1971

INTELLIGENCE MEMORANDUM

**SOMALIA: THE SOCIALIST REVOLUTION
FACES A STIFF ECONOMIC CHALLENGE**

Introduction

1. Somalia's Supreme Revolutionary Council (SRC), established by a coup in October 1969, has attempted to mobilize the country's meager resources and manpower for economic development. Vigorous programs under the collective label of scientific socialism are being promoted by the SRC to make the Somalis less dependent on foreign influence. However, a devastating drought has sapped the country's resources, weakening the government's ability to promote self-reliance and prolonging the need for substantial foreign assistance. Traditional Western foreign aid sources have been drying up, but large-scale Communist Chinese assistance has been announced. This memorandum examines the SRC's economic policies and evaluates the prospects for economic improvement as influenced by the drought and foreign aid.

Discussion

Background

2. A military coup on 21 October 1969 ended nine years of pro-Western parliamentary government in Somalia. ^{1/} The new government – the SRC headed by Major General Siad Barre – adopted "scientific socialism" as the means to achieve accelerated economic development and social reform. Scientific socialism represents increased authoritarian control of the economy and implies closer cooperation with

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

1. For locations and principal place names, see the map, Figure 1.

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SECRET**Figure 1**

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Communist countries. The SRC desires to minimize reliance on external guidance and assistance and gives priority to developing agriculture, grazing, infrastructure, water and mineral resources, and technical training. The regime's goals, while ambitious, are more pragmatic than those of its ineffectual predecessor, and the leadership, though inexperienced, is earnest and energetic.

3. The SRC inherited a Herculean task. The country is arid and lacking in resources, the economy is simple and undeveloped (see Table 1), and most of its 2.8 million people depend on nomadic herding and subsistence agriculture for their livelihood. Past development programs, overly ambitious and inefficiently administered, accomplished little except to give Somalia a reputation for squandering foreign aid. A devastating drought and declining foreign aid posed further problems for the council.

Table 1

Economic Indicators for Somalia

	<u>1963</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Trade	<u>Million US \$</u>			
Exports:	31.8	27.8	29.7	32.5
Of which:				
Live animals	12.7	13.7	17.4	18.5
Animal products	2.1	1.6	2.1	2.8
Bananas	14.2	9.6	8.4	7.8
Imports:	44.7	40.1	47.6	51.8
Estimated value of gross industrial output	N.A.	11.2	11.4	17.0
Electricity production in Mogadiscio	<u>Million Kilowatt-hours ^{a/}</u>			
	9.3	14.1	16.0	18.2
Asphalt roads	<u>Miles</u>			
	375	375	375	375

a. Mogadiscio consumes nearly half of the country's total production of electricity. Only Mogadiscio and Hargeisa have electricity 24 hours per day. No nationwide power grid exists.

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4. Since its beginning in 1968, the drought has intensified steadily. The entire population has been affected -- suffering, disease, and death are widespread. Hardest hit has been the nomadic population (70% of total), whose per capita annual income, always very low, has dropped sharply. Thousands of destitute farmers have been placed in special camps with the promise of government support.

5. The government's radical reputation and its alienating actions, such as repeated detention of American ships transiting Somali waters, have offended the former Western sources of economic aid. Continued trading with North Vietnam by Somali flag ships 2/ has resulted in a phase-out of US aid -- which included \$60 million in grants and \$20 million in credits extended between 1960 and 1970. Recognition of East Germany has caused West Germany -- which provided \$12.6 million in grants and \$16.6 million in credits between 1960 and 1969 -- to reassess its aid program. Italy, the largest aid source at present, has reduced its aid disbursements from the \$11.2 million annual average of the 1960s to about \$5.5 million annually -- which is used mainly to assist the Italian-dominated banana industry.

6. Prior to the coup, Communist aid had not been great. Most Soviet assistance since 1964 was military; out of a \$63.2 million economic commitment during the 1960s, only about \$2.5 million was in the form of grants, and only about \$39 million was disbursed. The bulk of Somalia's public debt was owed to the USSR, and inability to pay led to several reschedulings of repayments. Very little of a Communist Chinese credit of \$18.6 million extended in 1963 had been utilized.

Economic Actions by the Council

Nationalization

7. On 7 May 1970 General Siad announced the nationalization of all foreign banks, petroleum distributors, the Italian-Somali electric power company servicing Mogadiscio, and Societa Nazionale Agricola Industriale (SNAI), the sugar complex at Giohar. 3/ In addition, a new national

2. The Foreign Assistance Act prohibits US aid to countries whose flag ships trade with North Vietnam.

3. The nationalized banks are National and Grindlays, D.C.O. (British), Banco di Napoli (Italian), Banco di Roma (Italian), and Bank of Port Said (Egyptian). Nationalized Petroleum distributors included AGIP (Italian), Shell (Dutch), Mobil (American, but the franchise was wholly owned by a Somali), and Caltex (American). The Giohar sugar complex had been a partnership between the government and a private Italian group.

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insurance company was established with exclusive rights in Somalia, thus edging out the primarily Italian foreign companies. Compensation was assured all nationalized interests, but settlement negotiations still have not been completed.

8. Despite these nationalization measures, Siad maintained that foreign and domestic private investment would be encouraged and safeguarded from nationalization if it were geared to Somalia's development plans. Neither Somali businesses nor the foreign-owned banana producing companies were nationalized, and operations the Somalis lack the skills to perform, such as oil and mineral exploration, have not been threatened. Siad reassured the Somalis that neither herds nor small businesses would be taken over.

Short-term Development Programs

9. Of the emergency development actions taken by the SRC, self-help projects, in which communities cooperate to build something on their own with a minimum of outside money or materials (see the photograph, Figure 2), have received major emphasis and publicity. These projects provide at least temporary employment and directly involve the

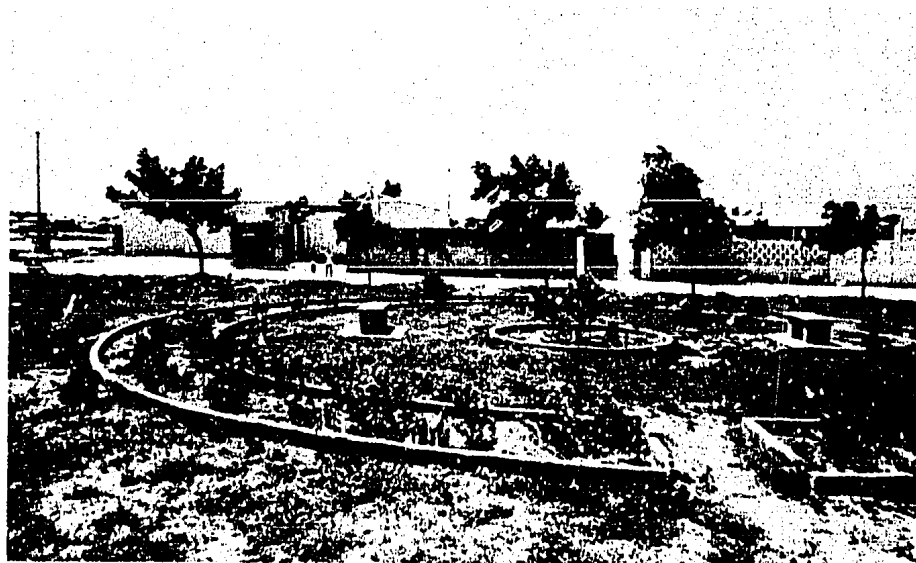


Figure 2. A low-cost housing project in Mogadiscio typical of self-help projects. The photograph reflects the arid character of Somalia.

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population in the development effort. Projects have included a general cleanup of cities and the building of schools, classrooms, clinics, hospitals, public buildings, wells, irrigation canals, roads, post offices, and libraries.

10. Crash programs, similar to self-help projects, emphasize agriculture, road construction, and forest protection. They were organized mainly to obtain an immediate increase in agricultural production while longer range plans were being formed. About 2,500 volunteers have been recruited from the urban unemployed; they serve one year and receive food, lodging, and pocket money as compensation. Apparently military personnel are being used in the pilot programs, providing leadership, discipline, administrative support, and a certain amount of technical supervision. The programs are financed by the government, and rations are supplied by the World Food Program (WFP).

11. The two major crash programs involve reclaiming farm land south of Mogadiscio near Scialambod (12,400 acres) and Genale (2,500 acres). Oilseeds, corn, and sorghum are being grown on irrigated land previously not under cultivation. Part of the land used in the Genale program was confiscated from Italians.

Austerity Measures

12. The new government's exhortations for sacrifice were backed quickly with unprecedented austerity measures. Civil service and military salaries were reduced on a sliding scale ranging from 5% to 40%, and a development tax of similar magnitude was levied on the private sector. Funds obtained from these measures were to be used for the self-help and crash programs. Additional measures included increased cigarette prices and increased fiscal duties on liquor (from 200% to 300%) and qat 4/ (from 42 cents to 56 cents per pound).

13. To soften the impact of these measures on living standards, the government attempted to reduce living costs through price and rent controls. The first price list set for basic commodities, such as pasta, flour, edible oils, and cloth, however, was received with such complaints from the business community, that prices quickly were revised upward. On the other hand, housing rents - reduced by 40% in Mogadiscio and 30% in Hargeisa, the largest city in the north - were very popular and were not protested by the landlords, probably because of a National Security law, concurrently passed, which provided death for a long list of offenses or criticisms against the State.

4. *Qat is a mild stimulant widely used in the Horn of Africa. It is taken in a number of ways, most common of which is chewing.*

SECRETThe Situation in 1971

14. In 1971 the SRC is faced with a seriously deteriorating situation. Positive accomplishments of its aggressive and well-intentioned actions are countered by the ever-growing impact of the drought. Forced to abandon its goal of independence from foreign assistance, the SRC is exploring the possibilities of more aid from both Communist and non-Communist sources.

15. Government control over nationalized companies apparently has proceeded without much disruption. After a period of reorganization and training of Somali personnel, the four banks affected were amalgamated on 1 January 1971 into two banks, the Somali Commercial Bank and the Somali Credit and Savings Bank, both under Somali management. Petroleum distribution, which was reorganized under a new semi-public Somali Petroleum Agency, has proceeded more slowly, with some continuing uncertainties as to the fate of Mobil and Caltex franchise holdings. Operations continue normal, however, as is the case with the electric utility and sugar complexes.

16. Of the two types of emergency economic programs, the self-help program is achieving some success and support. The projects appear to have caught the imagination of the people, who take pride in what has been accomplished, and periodic introduction of new projects has served to regenerate enthusiasm and bolster support for the government. The crash programs, however, are in difficulty - the daily wage of two shillings (28 cents) and workers' rations are becoming difficult to obtain. Farm machinery is in poor condition and needs replacements and additions. Much of the government's resources are now redirected to drought relief, thus limiting food and funds available for crash programs.

17. As the drought continues, its effects on agriculture become increasingly severe. During the first six months of 1971, drought-related livestock losses were estimated at \$45 million. Mortality rates (see Figure 3) increased sharply, and sales of immature and underweight stock have added to the drain on herds. Many herds may be too weak to trek to the fall market, a further potentially disastrous loss. In the same period, foodstuffs grown in dryland farming areas have accounted for most of a \$6 million crop loss. Losses in the February-March harvest include 65,000 metric tons of corn, 4,200 tons of sesame, and 600 tons of cotton. Furthermore, the weakened state of many farmers will impair their ability to plant, tend, and harvest the fall crops.

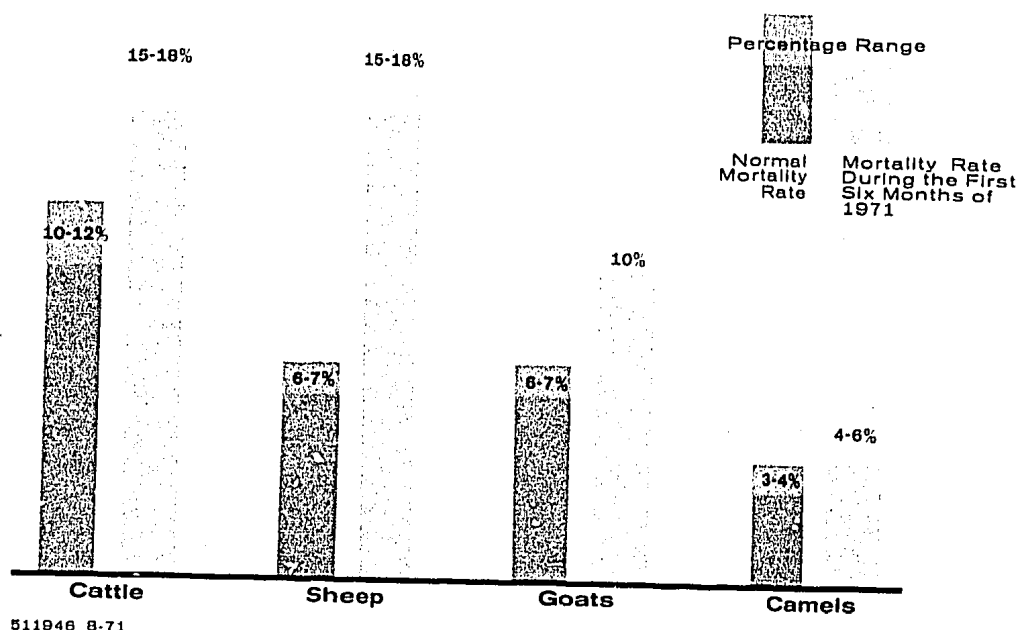
18. The drought has seriously strained government finances. In April 1971, before it became apparent that spring rains also would be below normal, government expenditures directly attributable to disaster relief were

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Livestock Mortality Rates in Somalia

Figure 3



forecast at \$5.5 million, more than 12% of the year's budgeted revenues. By the end of May, \$4.2 million had been spent, with little indication that the situation was improving. Moreover, the shrunken economy has reduced the domestic tax base, and a concomitant lower demand for imports probably will reduce the level of import duties, Somalia's largest revenue source.

19. Disaster relief from foreign sources has helped to keep famine under control. Contributions of medicines and foodstuffs were received from Communist China (\$422,500), the USSR (\$100,000), and Italy. By June the Communist relief materials had been distributed quietly by the government with no attribution except to itself, and the Somalis were negotiating with the European Community (EC) for 50,000 tons of cereals and \$1.5 million in financial assistance. The EC agreed to supply only 8,000 tons of corn, which are to be shipped in August. Unfortunately, the Somali government, believing that EC assistance would be sufficient to tide them over in the short term, refused a British offer of \$720,000 in food and other supplies and failed to request assistance from the FAO/WFP when given the opportunity.

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20. The USSR, after coasting more than a year in its favorable position achieved by the assumption of power by a Soviet-trained and Soviet-supplied military regime, increased its aid efforts somewhat in 1971. In addition to famine relief, it reportedly wrote off approximately \$2 million of past debts, postponed by five years the date on which repayments of the \$40-\$45 million debt were to begin, and offered a \$5.5 million grant to construct oil depots (see Table 2). An \$11 million donation to the UN Development Program (UNDP) for use in mineral exploration in Somalia and financing for several minor construction projects was offered also. However, no evidence of construction has yet been seen.

21. Communist China may have altered Somalia's aid prospects considerably. Somalia still has some \$17 million to draw on Chinese Communist credits extended in 1963. These credits included the construction of cigarette and match factories and some agricultural assistance. Also mentioned was a road from Mogadiscio to Burao. In June 1971, new Chinese assistance of \$109 million -- approximately equal to total Italian aid to date -- was announced following a Somali mission to Peking. The aid, which may include some of the outstanding 1963 credits is primarily for roadbuilding. Over the initial objections of the Somalis, Peking will be allowed to use a large number of Chinese laborers on the road projects.

22. Somalia also is receiving some aid from international organizations. UN grants, providing about \$2 million to \$3 million in technical assistance annually, are expected to continue. The EC, through the European Development Fund (EDF), is considering a grant for the next four years that could run as high as \$40 million. A portion of an \$8.5 million IDA credit for highway construction between Hargeisa and Berbera remains to be used, and a \$3.3 million credit for education was signed in June 1971.

Planned Economic Development

23. The SRC is attempting to replace the patchwork effort of self-help and crash programs. Details of a new Three-Year Plan (1971-73) are not yet available, but livestock and agriculture apparently are priority sectors, followed by basic physical infrastructure. Industry -- overemphasized in the past -- will have a low priority, except for some programs to increase existing industry's efficiency and to stimulate small-scale manufacturing.

24. Despite more pragmatic approaches, economic progress may be hampered severely by a lack of funds. Because the government's exact policy toward the private and public sectors' relative roles is not clear, the climate for private investment is unfavorable. To attract foreign private investment,

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Table 2

Major Sources of Foreign Aid to Somalia a/

	<u>Million US \$</u>			
	<u>Committed up to 1970</u>			<u>Aid Offers Since the Coup</u>
	<u>Grants</u>	<u>Loans</u>	<u>Total</u> <u>b/</u>	
Italy	102.8	9.6	112.4	11.0 <u>c/</u>
United States	59.6	20.2	79.8	--
West Germany	12.6	16.6	29.2	--
USSR	2.5	60.7	63.2	5.5 <u>c/</u>
Communist China	4.7	18.6	23.3	109.2 <u>d/</u> <u>e/</u>
United Nations	24.3	--	24.3	N.A.
International Development Association (IDA)	--	8.5	8.5	3.3 <u>d/</u>
EC	27.3	--	27.3	40.0 <u>c/</u> <u>f/</u>
Other	15.6	23.0	38.6	N.A.
<i>Total</i>	<i>248.4</i>	<i>157.2</i>	<i>406.6</i>	<i>N.A.</i>

a. The information on foreign assistance to Somalia is incomplete, and some types of grants are not valued in monetary terms.

b. Only the Italian loans were completely disbursed by 1970.

c. Grants.

d. Loans.

e. No conclusive proof of commitment as yet.

f. Still under consideration.

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the government will have to fulfill its promise to compensate nationalized companies, and the resulting outflow of private capital probably would offset the inflow of new capital. Even if private entrepreneurs overcame their apprehension, they face a limited scope for profitable investment because of the small market and the difficulty in finding profitable projects. Public savings would be difficult to generate under favorable conditions; in addition, the current drought not only has reduced the revenue base but also has placed a heavy burden on government finances for famine relief. The Chinese aid, if it actually is supplied, would be for a narrow range of projects, mainly roadbuilding. Thus, even with improved prospects from the Chinese aid, the SRC cannot possibly achieve its development goals without substantial additional foreign assistance on concessionary terms.

Conclusions

25. The SRC's policies generally represent a more pragmatic approach to Somalia's economic problems than those of its predecessor and, while they have not achieved any marked success, they have not directly caused the economy's deterioration. The self-help and crash programs provide a low-cost method for achieving basic economic improvements with the population's direct participation. The nationalizations have created some apprehension in the private sector, but they did not cause the disruption and demoralization that characterized contemporary nationalizations and confiscations in nearby Sudan. Although experience and know-how is in short supply, management of development projects under the new Three-Year Plan probably will be an improvement over previous efforts.

26. The drought has destroyed any hope for economic self-reliance for quite some time. Livestock production, the country's major industry, has suffered a serious setback, and it will take several years to rebuild the depleted herds. Chances are very slim for achieving self-sufficiency in food production during the 1970s. The drought has strained the government's finances and seriously impaired its ability to accumulate domestic savings for development. A contracted economic base and an already high degree of austerity will make it very difficult to obtain the further sacrifices necessary to enable Somalia to generate development from within. Substantial foreign aid will be required for even modest economic development during the 1970s.

27. At this critical moment, Somalia's traditional Western sources of aid have declined sharply, and the USSR is unlikely to commit much additional economic aid, if any. The proposed \$109 million Communist Chinese credit would make China the dominant donor. However, the Chinese

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aid would be for a narrow range of projects, and drawdowns normally tend to be slow. The only immediate hope for significant grant aid lies with the \$40 million from the EC, which is still under consideration. Because of its economic interests in Somalia, Italy may supply additional aid in the future but not on the scale of the 1960s.

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